

Message Text

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PAGE 01 COPENH 05194 310751Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /100 W
-----125383 310906Z /14

P R 301620Z AUG 77
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC PRIORITY 5045
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY HELSINKI
AMEMBASSY OSLO
AMEMBASSY REYKJAVIK
AMEMBASSY STOCKHOLM

UNCLAS COPENHAGEN 5194

USEEC

USOECD

EO 11652: NA
TAGS: EFIN EC ECON PINT DA
SUBJ: DEVALUATION OF DANISH KRONER;FOLLOW-70

REF: COPENHAGEN 5160

1. THE COPENHAGEN FOREIGN EXCHANGE MARKET TODAY REGISTERED SOME
STRENGTHENING OF DOLLARS IN RELATION TO BOTH DEUTSCHMARK AND
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SWISS FRANCS. THE DANISH KRONE FOLLOWED THE DEUTSCHMARK AND HELD
ITS POSITION AT THE TOP OF THE SNAKE. SWEDISH KRONER GAINED,
NEUTRALIZING ABOUT ONE PERCENT OF YESTERDAY'S TEN PERCENT DROP.
TRADING AFTER NOON FIXING, HOWEVER, SHOWED SOME DECLINE FOR
DANISH KRONER WHILE DOLLAR/DEUTSCHMARK/SWISS FRANCS RELATIONS
WERE STABLE. DEALERS SUSPECT THAT STABILIZATION OF THE SWEDISH
KRONER AT PRESENT LEVEL IS PROVIDED BY INTERVENTION.

2. COMMENTS ON THE LIMITED DANISH DEVALUATION THIS MORNING WERE AS FOLLOWS: (A) CENTRAL BANK GOVERNOR SVEND ANDERSEN SAID THAT CENTRAL BANK WOULD OPPOSE ANY FURTHER ADJUSTMENT IN KRONE RATE THIS YEAR OR DURING 1978 AND THAT DANISH DEPARTURE FROM SNAKE COOPERATION WAS OUT OF THE QUESTION. (B) A LEADING COMMERCIAL BANK ECONOMIST ALSO EXCLUDED THE POSSIBILITY OF FURTHER DANISH KRONE ADJUSTMENT AND EXPECTED THAT PRESENT LIMITED KRONE DEVALUATION WOULD BECOME NEUTRALIZED SHORTLY BY DECLINING VALUES OF BOTH DOLLARS AND STERLING. (C) THE FEDERATION OF INDUSTRIES' CHIEF ECONOMIST LAMENTED THE DETRIMENTAL EFFECTS OF DEVLUATION FOR INDUSTRY COSTS IN TERMS OF HIGHER DEBT MANAGEMENT COSTS AND RAW MATERIAL COSTS; HE CONSIDERED PROSPECTS OF EXPORT GAINS UNCERTAIN IN VIEW OF THE PROBABLY INFLATIONARY EFFECTS WHICH WOULD RAPIDLY OFFSET EXPORT MARKET BENEFITS. (D) THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS EMPHASIZED THAT DEVALUATION MERELY CONSTITUTED A SMALL ADJUSTMENT OF THE REGISTERED REVALUATION OF THE KRONE AS AN EFFECT OF SNAKE COOPERATION AND THE TIE TO THE DDUTSCHMARK; THIS, HE SAID, WOULD BE A RECURRING PROBLEM UNLESS DANISH COST DEVELOPMENTS WERE REDUCED TO GERMAN LEVELS. INCOMES AND COST POLICIES WOULD DETERMINE, THEREFORE, WHETHER DEVALUATION WOULD PROVIDE COMPETITIVE BENEFITS FOR DENMARK. (E) THE TRADE UNION COUNCIL (LO) CHAIRMAN SHARPLY DENOUNCED ANY IDEA OF INCOMES POLICY EXTENSION IF LIMITED TO WAGE RESTRAINT WITHOUT SIMILAR RESTRICTIONS ON CAPITAL GAINS.

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3. THE SECOND READING IN THE FOLKETING OF THE GOVERNMENT'S FISCAL RESTRAINT AND EMPLOYEMENT INCENTIVE PROGRAM, ORIGIANALLY SCHEDULED FOR YESTERDAY BUT POSTPONED TILL 1 PM TODAY WAS FURTHER POSTPONED TILL LATER TODAY, PENDING CONTINUED NEGOTIATION WITH OPPOSITION PARTIES. PROSPECTS OF A COALITION CABINET OF SOCIAL DEMOCRATS AND LIBERAL-CONSERVATIVE OPPOSITION PARTIES WERE BROUGHT INTO THE PICTURE YESTERDAY AND WERE NOT ENTIRELY REJECTED BY PRIME MINISTER JORGENSEN ON A TV PROGRAM LAST NIGHT, PROVIDED THERE IS A POSITIVE OUTCOME OF PRESENT NEGOTIATIONS. DETAILS OF PRESENT NEGOTIATIONS HAVE NOT BEEN REVEALED AND THE ISSUE OF FURTHER WAGE RESTRAINT MEASURES (REF PARA 2(E) ABOVE AND REFTEL) HAVE NOT BEEN PUBLICLY MENTIONED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, CURRENCIES, DEVALUATIONS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 30-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977COPENH05194
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770314-0941
Format: TEL
From: COPENHAGEN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770810/aaaaahpt.tel
Line Count: 107
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d6a28c4e-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 COPENHAGEN 5160
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 24-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1396401
Secure: OPEN
Status: NATIVE
Subject: DEVALUATION OF DANISH KRONER;FOLLOW-70
TAGS: EFIN, ECON, PINT, DA, EEC
To: STATE USEEC MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/d6a28c4e-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009